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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of:	)
Steven W. ABRAHAMS et al.	) Group Art Unit: 3624
Application No.: 09/602,254	) Examiner: Narayanswamy Subramanian
Filed: June 23, 2000	) Confirmation No.: 9350
For: GUARANTEE CERTIFICATES	)

Attention: Mail Stop Appeal Brief-Patents
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Sir:

APPEAL BRIEF UNDER BOARD RULE § 41.37

In support of the Notice of Appeal filed April 20, 2005, and further to Board Rule 41.37, Appellants present this brief and enclose herewith a check for the fee of $500.00 required under 37 C.F.R. § 1.17(c).

This Appeal Brief is being filed concurrently with a Petition for an Extension of Time for two months, and the appropriate fee, extending the due date to August 20, 2005.

This Appeal responds to the January 21, 2005, final rejection of claims 8-10, 37, 38, and 40.

If any additional fees are required or if the enclosed payment is insufficient, Appellants request that the required fees be charged to Deposit Account No. 06-0916.

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Appendices

Real Party In Interest

The Federal Home Loan Mortgage Corporation (Freddie Mac) is the real party in interest.

Related Appeals and Interferences

There are currently no other appeals or interferences that Appellants, Appellants' legal representative, or assignee believe will directly affect or be directly affected by or have a bearing on the Board's decision in the pending appeal.

A continuation-in-part of the present application, U.S. Application No. 10/096,584 entitled "Reference Pools as Credit Enhancements" by Henry J. Cassidy, et al., filed March 14, 2002, is currently also under appeal, but it is not believed that that appeal will directly affect or be directly affected by or have a bearing on the Board's decision in the pending appeal.

Status Of Claims

Claims 1-7 have been cancelled.

Claims 8-10 stand rejected.

Claims 11-14 have been cancelled.

Claims 15-17 have been withdrawn by the Examiner.

Claims 18-35 have been cancelled.

Claim 36 has been withdrawn by the Examiner.

Claims 37 and 38 stand rejected.

Claim 39 has been withdrawn by the Examiner.

Claim 40 stands rejected.

Claims 41 and 42 have been withdrawn by the Examiner.

Claims 8-10, 37, 38, and 40 are the subject of this appeal.

Status Of Amendments

No amendments have been filed subsequent to the final rejection. All previous amendments have been entered.

<u>Summary Of Claimed Subject Matter</u>

Mortgage insurers regularly write contracts that cover the actual or estimated losses associated with the delinquency (late principal and interest payment by the borrower) and default (cessation of principal and interest payments by the borrower) of mortgage loans. (Application ("Appl.") at 1-2). A contract between the insurer/guarantor and the investor or trustee sets the terms of the arrangement. (*Id.*). A contract is an agreement between two or more persons which creates an obligation to do or not to do a particular thing. *Black's Law Dictionary*, 224 (Abridged Sixth ed., West Publishing Co. 1991). In the absence of mortgage insurance, when a mortgage loan becomes delinquent, the holder of the mortgage note typically loses principal and interest payments it would otherwise have received and also may incur expenses associated with foreclosure and liquidation of the mortgaged property to try to recover the principal. (Appl. at 1-2). The proceeds from liquidation also may fall short of the amount of principal due to the note holder. (*Id.*). If, in lieu of a foreclosure, the mortgage loan is renegotiated in connection with the default, the note holder also may experience losses associated with the workout of the loan. In any case, mortgage insurance would reimburse the mortgage note holder for all or part of the foregone principal and interest, expenses and liquidation shortfall. (*Id.*). A holder is the person who is in possession of a document of title, or an instrument or an investment security drawn, issued, or endorsed to him or to his order, or to bearer, or in blank. *Black's Law Dictionary*, 503 (Abridged Sixth ed., West Publishing Co. 1991) (citing U.C.C. § 1-201(20)).

In the case of loans that have been securitized, i.e., turned into a mortgage-backed security, investors or holders may rely on bond insurers or government-

sponsored enterprises, such as Freddie Mac or Fannie Mae, to mitigate losses arising from default of the underlying mortgage loans. (Appl. at 2-3). These guarantors typically guarantee the timely payment of loan principal, interest, or both to the holder of the mortgage-backed security. (*Id.*). In exchange for a fee, these guarantors absorb all or a portion of the losses that would otherwise be associated with the guaranteed mortgage-backed securities. (*Id.*). When a securitized mortgage loan experiences a payment default, the guarantor typically compensates the mortgage-backed security holder for the difference between scheduled principal and interest payments and the aggregate net amount which is actually realized from a workout or liquidation. As is the case with payments from mortgage insurers, this "make-whole" payment is passed along to mortgage-backed security holder undistinguished from the payment of interest and return of loan principal through normal means, such as amortization or prepayment. (*Id.*).

The existence of insurance for a mortgage loan, or of a guarantee for a mortgage-backed security, is generally established by contract at the beginning of the life of the loan or security in question. (*Id.*). A feature of this contract is that the payment obligation of the insurer or guarantor always runs to the owner of the insured or guaranteed asset so that the asset and the insurance cannot be decoupled, even if the value of the arrangement to the owner changes. (*Id.*). This feature makes the arrangement illiquid and potentially less valuable. (*Id.*).

Embodiments of the present invention solve the liquidity and value problems by connecting the guarantee obligation payments from an asset insurer or guarantor to a new financial instrument, referred to as a "guarantee certificate," that is separate and

independent from the insured or guaranteed assets. (E.g., Appl. at 3-4, 6-7, 17, 24). According to the present invention, guarantee payments are paid to the holder of the guarantee certificate, instead of to the owner of the asset that is being guaranteed. For example, if a guaranteed-against event occurs, such as a guaranteed mortgage entering default, the guarantee payment from the guarantor does not go to the holder of the mortgage note (or the holder of a mortgage-backed security collateralized by the mortgage note in the case where the mortgage has been securitized) as is traditional. (*Id.*). Instead, the guarantee payment goes to whoever holds the guarantee certificate associated with the mortgage. (*Id.*). Because the guarantee payment is made to the guarantee certificate holder, and is not made to the owner of the underlying mortgage asset as in a traditional guarantee contract, the guarantee certificate has its own market value. (*Id.*; Appl. at 3). A guarantee certificate holder may sell, trade, or otherwise convey the certificate to a new holder according to the market value. (*Id.*). Regardless of changes in ownership, whoever holds the certificate when a guaranteed-against event occurs is entitled to the guarantee payment. (*Id.*).

Turning to the claims on appeal, claim 8 is drawn to a method for issuing a guarantee certificate. A guarantee certificate is a financial instrument representing an obligation of a party to make a payment triggered by certain default-related events associated with real estate loans. The method comprises the steps of: pooling, into a reference pool, using at least one data processing system, instruments representing payment obligations triggered by certain default-related events associated with real estate loans underlying the instruments; identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool, using at

least one data processing system; and issuing a guarantee certificate to entitle a holder of the certificate to receive at least one payment from the identified and segregated cash flows.

Claim 9 depends from claim 8 and is drawn to a method for issuing a guarantee certificate, wherein the step of identifying and segregating cash flows includes: creating a trust for holding the pooled instruments, and initiating payment through the trust of some portion of the identified and segregated cash flows to the holder of the certificate.

Claim 10 depends from claim 8 and is drawn to a method for issuing a guarantee certificate, wherein the guarantee certificate is tradable.

Claim 37 depends from claim 8 and is drawn to a method for issuing a guarantee certificate, wherein the guarantee certificate is conveyable to an entity that holds no interest in the instruments in the reference pool.

Claim 40 also depends from claim 8 and is drawn to a method for issuing a guarantee certificate, wherein the certain default-related events includes at least one event from a group comprising: a real estate loan delinquency; a real estate loan default; a real estate loan foreclosure; a real estate liquidation; a real estate loan workout; a classification of real estate as real estate owned (REO); and an acquisition of a real estate deed in lieu of foreclosure.

Claim 38 is an independent claim drawn to a method for issuing a guarantee certificate. A guarantee certificate is a financial instrument representing an obligation of a party to make a payment triggered by certain events associated with an asset. The method comprises the steps of: pooling, into a reference pool, using at least one data processing system, instruments representing payment obligations triggered by default-

related events associated with assets underlying the instruments; identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool, using at least one data processing system; and issuing a guarantee certificate to entitle any holder of the certificate to receive at least one payment from the identified and segregated cash flows.

Grounds of Rejection

A. Claims 8, 9, 38, and 40 stand rejected under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 5,966,700 to Gould et al. ("*Gould*").

B. Claims 10 and 37 stand rejected under 35 U.S.C. § 103(a) as being unpatentable over *Gould* in view of U.S. Patent No. 6,088,685 to Kiron et al. ("*Kiron*").

Argument

I. The Examiner's Rejection of Claims 8 and 38 Must Be Reversed Because *Gould* Fails to Teach or Suggest Each and Every Recited Element and Because There is No Suggestion or Motivation to Modify *Gould*

In rejecting claims 8 and 38 under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 5,966,700 to Gould et al., the Examiner interpreted *Gould* to disclose all the elements of claims 8 and 38. (Final Office Action ("OA") at 2-3). Appellants respectfully disagree with the Examiner's interpretation of *Gould*.

To establish a *prima facie* case of obviousness under 35 U.S.C. § 103, the Examiner must factually demonstrate that (1) *Gould* discloses or suggests each and every element recited in the claims; (2) there is a reasonable expectation of success for any modification of the teachings of *Gould*, and (3) there exists some suggestion or motivation, either in *Gould* itself or in the knowledge generally available to one of ordinary skill in the art, to modify *Gould* or combine the teachings of two or more references. *See* M.P.E.P. §§ 2142, 2143 (8th ed., May 2004 rev.). Furthermore, each of these requirements must be found in the prior art – not in Applicants' own disclosure. *See id.*

A. The Examiner's Rejection of Claims 8 and 38 Must Be Reversed Because *Gould* Fails to Teach or Suggest Issuing a Guarantee Certificate To Entitle a Holder of the Certificate to Receive at Least One Payment from the Identified and Segregated Cash Flows.

Gould fails to disclose or suggest each and every element recited in claims 8 and 38. Specifically, claim 8 recites "a method for issuing a guarantee certificate, which is a financial instrument representing an obligation of a party to make a payment triggered by certain default-related events associated with real estate loans," and "issuing a guarantee certificate to entitle a holder of the certificate to receive at least one payment

from the identified and segregated cash flows." Similarly, claim 38 recites "a method for issuing a guarantee certificate, which is a financial instrument representing an obligation of a party to make a payment triggered by certain events associated with an asset," and "issuing a guarantee certificate to entitle any holder of the certificate to receive at least one payment from the identified and segregated cash flows." *Gould* does not teach or suggest a method for issuing a guarantee certificate having these recited features.

Instead, *Gould* teaches using a contract to divide the responsibility for guaranteeing against mortgage pool credit losses between a mortgage originator (e.g., a bank) and a mortgage funding institution (e.g., a Federal Home Loan Bank). (Abstract, col. 2, lines 21-30; col. 3, lines 29-54). In the *Gould* system, a mortgage originator and a funding institution enter into a contract, called a master commitment agreement, that assigns responsibility between the mortgage originator and the funding institution for different portions of the credit losses for a pool of mortgages funded by the funding institution and originated by the originator. (Col 2, lines 36-40; col. 3, line 39 - col. 4, line 24; col. 5, lines 46-50). Later, the exact loans included in the pool covered by the master commitment agreement are specified in a delivery commitment agreement, which is a contract between the funding institution and the mortgage originator that defines the note rates, agent fees, closing time interval, product type, total dollar amount, and other terms pertaining to the funding of certain individual or groups of mortgages. (Col. 4, lines 18-24). *Gould* calls this contractual arrangement for a guarantee by the mortgage originator that it will pay loan credit losses under certain circumstances a "credit enhancement." (Col. 3, lines 43-45).

Under the credit enhancement arrangement, an owner of an interest in the mortgage pool receives payments from either the originator or the funding institution to replace credit losses that the owner would otherwise experience if the mortgage pool were not guaranteed according to the master commitment agreement. (Col. 3, line 55 - col. 4, line 2; Appl. at 1-3). For example, the owner of an interest in the mortgage pool may receive payments compensating for the first five percent of credit losses in the mortgage pool from a "spread account" set up by the funding institution, receive payments compensating for any credit losses over five percent and up to 10 percent from the mortgage originator, and receive payments compensating for any losses over 10 percent from the funding institution. (Col. 3, line 55 - col. 4, line 2). Any credit loss payments go to the owner(s) of an interest in the mortgage pool from the party (mortgage originator or mortgage funding institution) determined by the terms of the master commitment agreement and delivery commitment agreement. (*Id.*).

Thus, the *Gould* arrangement simply divides responsibility for guaranteeing the holder of an interest in the guaranteed mortgage pool against various levels of credit losses between the mortgage originator and the mortgage funding institution, instead of paying a third-party guarantor, such as Freddie Mac or Fannie Mae, to guarantee against credit losses for the pool. (Col. 1, lines 41-53; col. 3, lines 48-54). As Appellants' patent application explains, such conventional credit loss insurance or guarantee arrangements that pay the owner of the guaranteed asset, such as *Gould* describes, are exactly the type of arrangement that the present invention improves upon:

> The existence of insurance for a mortgage loan, or of a guarantee for a mortgage-backed security, is generally established at the beginning of the life of the loan or security in question. A contract between the insurer/guarantor and the investor or trustee sets the terms of the arrangement. A feature of this contract is that the payment obligation of the insurer or guarantor always runs to the owner of the insured or guaranteed asset so that the asset and the insurance cannot be decoupled, even if the value of the arrangement to the owner changes. This feature makes the arrangement illiquid and potentially less valuable.
>
> (Appl. at 3).

Gould's arrangement merely replaces one guarantor, such as Freddie Mac or Fannie Mae, with two different guarantors--the mortgage originator and the mortgage funding institution. (Col. 1, lines 41-53; col. 3, lines 48-54). This arrangement is not at all like the claimed guarantee certificate.

1. *Gould* Does Not Teach or Suggest a Guarantee Certificate as Recited in Claims 8 and 38

Contrary to the Examiner's interpretation of *Gould*, *Gould*'s master commitment agreement does not disclose or suggest a guarantee certificate as recited in claims 8 and 38, and *Gould*'s delivery commitment agreement does not disclose or suggest a guarantee certificate as recited in claims 8 and 38. (Final OA at 3, 5, 6). *Gould*'s master commitment agreement is a contract between two parties, the funding institution and the mortgage originator, that defines the terms under which the funding institution will fund a pool of mortgages to be produced by the mortgage originator, including terms regarding with whom the responsibility lies (the funding institution or the mortgage

originator) for each portion of any credit losses associated with the pool. (Col. 4, lines 3-10). *Gould*'s master commitment agreement does not disclose or suggest "entitl[ing] a holder of the certificate to receive at least one payment from the identified and segregated cash flows" because a master commitment agreement identifies and obligates only the party that must pay a credit-loss payment, not the party entitled to receive such a payment. *Gould* teaches that a master commitment agreement replaces a credit-loss guarantor, such as Freddie Mac or Fannie Mae, with the mortgage originator and lending institution as guarantors. (Col. 1, line 41 - col. 2, line 5; col. 3, lines 48-54). The payments from such guarantors are received by the owner(s) of an interest in the asset being guaranteed. (Appl. at 2-3, 24; *Gould* col. 3, lines 48-54).

Furthermore, a contract such as a master commitment agreement affects and defines only the obligations of the parties that entered into the contract, and does not affect or entitle to anything "a holder" of the contract. Neither the term "holder" nor the concept is taught or suggested by *Gould*, nor is the term applicable to a contract or referential of a contract. Certainly, a person who is in possession of a contract document (such as a master commitment agreement) is not entitled to any payments under the contract simply by virtue of his possession, i.e., by virtue of his being a holder of the contract. Yet, this is the Examiner's contention.

For at least these reasons, the Examiner is mistaken in his contention that *Gould*'s master commitment agreement teaches or suggests a guarantee certificate as recited in claims 8 and 38. (Final OA at 3, 5, 6).

2. *Gould* Does Not Teach or Suggest Issuing a Guarantee Certificate as Recited in Claims 8 and 38

The Examiner is also mistaken in his contentions that "issuing a Master Commitment Agreement includes the step of issuing a guarantee certificate." (Final OA at 3, 5, 6). *Gould*'s master commitment agreement does not disclose or suggest "issuing a guarantee certificate" because a master commitment agreement between a mortgage originator and a funding institution is not a financial instrument that is, or can be, "issued;" *e.g.*, offered for sale to investors.[1] A master commitment agreement is a contract. *Gould* teaches that the sole parties to a master commitment agreement are the mortgage originator and the funding institution. (E.g., Abstract; col. 2, lines 24-30; col. 3, lines 29-35; col. 4, lines 3-6; 20-24; col. 5, lines 46-48). Neither the term "issuing" nor the concept of issuing is taught or suggested by *Gould*, nor does the term "issuing" apply to a master commitment agreement contract nor make sense with reference to a contract between two parties. *Gould* does not teach or suggest offering the master commitment agreement for sale to investors.

Moreover, there is no teaching or suggestion of "issuing" in *Gould* because there is no reason for an investor or other third party to purchase *Gould*'s master commitment agreement even if, assuming *arguendo*, it were offered for sale. The benefits and obligations under the master commitment agreement apply only to the parties to the agreement--the mortgage originator and funding institution--and would not apply to a buyer of the agreement. Nor would the sale of a master commitment agreement, which specifies credit-loss payers, affect credit loss cash flows to the payee, *i.e.,* the holder of an interest in the guaranteed mortgage(s) specified in the agreement. Accordingly, the Examiner is mistaken in his contention that "issuing a Master Commitment Agreement

1 With respect to securities, "issue" refers to the act or process of offering stocks or bonds for sale to public or institutional investors. *Black's Law Dictionary*, 577 (Abridged Sixth ed., West Publishing Co. 1991).

includes the step of issuing a guarantee certificate" as recited in claims 8 and 38. (Final OA at 3, 5, 6).

The Examiner also mistakenly contends that *Gould*'s delivery commitment agreement suggests the guarantee certificate of claims 8 and 38. *Gould*'s delivery commitment agreement is very similar to the master commitment agreement described above. *Gould* teaches that the delivery commitment agreement is another contract between the funding institution and the mortgage originator that specifies the exact loans covered by the master commitment agreement and defines details of the fees and other terms pertaining to the funding of certain individual or groups of mortgages. (Col. 4, lines 18-24). For at least the same reasons given above regarding the master commitment agreement, *Gould*'s delivery commitment agreement does not disclose or suggest issuing a guarantee certificate as recited in claims 8 and 38, and the Examiner is mistaken in interpreting *Gould* such that the "delivery commitment agreement is interpreted to include a guarantee certificate." (Final OA at 3).

B. The Examiner's Rejection of Claims 8 and 38 Must Be Reversed Because *Gould* Does Not Teach or Suggest Identifying and Segregating Cash Flows Paid to Satisfy Triggered Payment Obligations for the Instruments in the Reference Pool

Gould does not disclose or suggest identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool, as recited in claims 8 and 38, because *Gould's* guarantee payments go only to a holder of an interest in the mortgage(s) that the master commitment agreement guarantees against credit loss. *Gould* teaches that a master commitment agreement replaces a credit-loss guarantor such Freddie Mac or Fannie Mae with the mortgage originator and lending institution as guarantors. (Col. 1, line 41 - col. 2, line 5; col. 3, lines 48-54). The

payments from such guarantors are received by the owner(s) of an interest in the asset being guaranteed, *e.g.*, an owner of an interest in a mortgage pool. (Appl. at 2-3, 24). Thus, in *Gould*'s guarantee arrangement there is no teaching or suggestion, and indeed no need, to identify and segregate cash flows paid to satisfy triggered guarantee payment obligations for the instruments in the reference pool because the cash flow only go to one place--the owner(s) of an interest in the assets in the reference pool.

The Examiner argued that "the risks to be borne by each party [as disclosed by *Gould*] identifies and segregates the cash flows to be paid." (Final OA at 3). The Examiner's argument is incorrect because although *Gould* teaches who the credit enhancement cash flows come from (i.e., the mortgage originator or the funding institution), it does not teach or suggest that the cash flows are paid to anyone other than a holder of an interest in the guaranteed mortgage(s). The Examiner's argument ignores the tie between the identifying and segregating step and the issuing step of claims 8 and 38--namely that the identified and segregated cash flows form at least one payment received by the holder of the guarantee certificate. There is nothing taught or disclosed by *Gould* related to identifying and segregating paid-in cash flows so that they can be paid out to the holder of a guarantee certificate, as recited in claims 8 and 38.

C. The Examiner's Rejection of Claims 8 and 38 Must Be Reversed Because The Examiner Has Provided No Suggestion or Motivation to Modify *Gould* to Result in the Claimed Invention

In rejecting claims 8 and 38 under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 5,966,700 to *Gould* et al., the Examiner interpreted *Gould* to disclose all the elements of claims 8 and 38. The Examiner did not, however, meet his burden of establishing a prima facie case of obviousness because the Examiner did not factually demonstrate that there exists some suggestion or motivation, either in *Gould* itself or in

the knowledge generally available to one of ordinary skill in the art, to modify *Gould* as the Examiner asserted to result in the claimed invention. *See* M.P.E.P. §§ 2142, 2143 (8th ed., May 2004 rev.).

Specifically, in the section 103 rejection, the Examiner made several assertions that the teachings of *Gould* suggest or made obvious the elements recited in claims 8 and 38. For example, the Examiner stated that *Gould's* "risks to be borne by each party identifies and segregates the cash flows to be paid," "delivery commitment agreement is interpreted to include a guarantee certificate," "splitting of responsibility for guaranteeing against mortgage pool credit loss . . . includes identifying and segregating cash flows paid to satisfy triggered payment obligations," and "issuing a Master Commitment Agreement includes the step of issuing a guarantee certificate." (Final OA at 2-3, 5).

These conclusory statements are all the Examiner offered as rationale to support the section 103 rejections. But these conclusory statements neither identify facts, provide reasoning for the Examiner's interpretations, nor provide explanation of the teachings of *Gould* so as to demonstrate that there exists some suggestion or motivation, either in *Gould* itself or in the knowledge generally available to one of ordinary skill in the art, to modify *Gould* in a manner resulting in the inventions of claims 8 and 38. The Examiner must present a convincing line of reasoning as to why the artisan would have found the claimed invention to have been obvious in light of the teachings of the references. *Ex parte Clapp*, 227 USPQ 972, 973 (Bd. Pat. App. & Inter. 1985); M.P.E.P. § 2142. The Examiner has not done so here.

Furthermore, Appellants have provided evidence of the nonobviousness of claims 8 and 38 in the Response to Office Action filed November 12, 2004, in reply to

the Office Action mailed July 14, 2004. In the Response, Appellants cited several portions of the specification as evidence that at the time the application was filed, it was not known in the art to pay guarantee payments to anyone other than an owner of an interest in the guaranteed assets. (Response to Office Action filed November 12, 2004, at 10-11). In the Final Office Action, the Examiner did not rebut Appellants' evidence, provide any evidence to the contrary, nor provide any evidence at all as to why the claimed inventions are obvious in light of *Gould*. "With regard to rejections under 35 U.S.C. 103, the examiner must provide evidence which as a whole shows that the legal determination sought to be proved (i.e., the reference teachings establish a prima facie case of obviousness) is more probable than not." (M.P.E.P. § 2142). This the Examiner has not done.

II. The Examiner's Rejection of Claim 9 Must Be Reversed Because *Gould* Fails to Teach or Suggest Each and Every Recited Element and Because There is No Suggestion or Motivation to Modify *Gould* as the Examiner Asserted

In rejecting claim 9 under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 5,966,700 to *Gould* et al., the Examiner interpreted *Gould* to disclose all the elements of claim 9. Appellants respectfully disagree with the Examiner's interpretation of *Gould*.

Specifically, *Gould* fails to disclose or suggest "creating a trust for holding the pooled instruments; and initiating payment through the trust of some portion of the identified and segregated cash flows to the holder of the certificate," as recited in claim 9. In support of the rejection of this claim, the Examiner stated that "the agreement [between a mortgage originator and funding institution to share credit risk] includes a trust and the Spread account along with Master Servicer is interpreted to include a trust

also." (Final OA at 4). This rejection should be reversed because the Examiner has misinterpreted *Gould* and ignored several elements recited in claim 9.

As discussed above, *Gould* teaches that the master commitment agreement is a contract that assigns responsibility between the mortgage originator and the funding institution for different portions of the credit losses experienced by a pool of mortgages funded by the funding institution and originated by the originator. (Col. 2, lines 36-40; col. 3, line 39 - col. 4, line 24; col. 5, lines 46-50). *Gould* teaches that a spread account is money set aside by the funding institution to fund the initial credit losses experienced by the mortgage pool. (Col. 3, lines 57-66). *Gould* teaches that a Master Servicer is an institution which contracts with the funding institution to provide accounting and administrative services for mortgages. (Col. 4, lines 27-29). None of these is described as a trust or includes a trust, as the Examiner asserted. None of these holds the pooled instruments or suggests holding the pooled instruments as recited in claim 9. None of these pays some portion of the identified and segregated cash flows to the holder of the guarantee certificate as recited in claim 9.

The Examiner cites to column 3, lines 30-33 as disclosing a trust as recited in claim 9, but this is clearly an error. Column 3, lines 30-33 of *Gould* states: "The present invention is a management system which is used in conjunction with an agreement between a mortgage originator, such as a bank, a trust or a savings and loan, to share risks with a funding institution such as a Federal Home Loan Bank." In this context, the word "trust" is short for "trust company" (which is a type of commercial bank) because it is used to refer to an example of a type of mortgage originator.

A "trust" as recited in claim 9 is a legal trust, *e.g.*, a legal entity created by a grantor for the benefit of designated beneficiaries under the laws of the state and the valid trust instrument. *Black's Law Dictionary*, 1047 (Abridged Sixth ed., West Publishing Co. 1991). As explained in the specification regarding one embodiment of a process for issuing a guarantee certificate:

> Next, the issuer creates a trust to hold the Reference Pool loans or securities (step 560). The trust obligates the trustee to identify and segregate the cash flows paid to satisfy insurance or guarantee claims from the cash flows normally paid by the underlying loans or securities. Guarantee Certificates are then issued based on the trust created by the issuer.

(Appl. at 20).

Thus, the trust is used to pass through guarantee payments from the holder of an interest in the mortgage pool (i.e., the trust that holds the pooled instruments) to the holder of the guarantee certificate that is entitled to some portion of the guarantee payment cash flows. *Gould's* system does not suggest, disclose, or need a trust because *Gould's* guarantee payments are paid directly to the holder(s) of an interest in the mortgage pool, not to a holder of a guarantee certificate. Thus, *Gould* does not teach or suggest all the elements recited in claim 9.

In addition, for the same reasons given above with respect to claims 8 and 38, the Examiner also did not meet his burden of establishing a prima facie case of obviousness because the Examiner did not factually demonstrate that there exists some

suggestion or motivation, either in *Gould* itself or in the knowledge generally available to one of ordinary skill in the art, to modify *Gould* as the Examiner asserted to result in the claimed invention. *See* M.P.E.P. §§ 2142, 2143 (8th ed., May 2004 rev.). The Examiner's conclusory statements concerning the teachings of *Gould* included no facts, reasoning, or evidence showing suggestion or motivation to modify or interpret *Gould* to read on the claimed inventions as the Examiner did.

III. The Examiner's Rejection of Claims 10 and 37 Must Be Reversed Because *Gould* in Combination with *Kiron* Fails to Teach or Suggest Each and Every Recited Element and Because the Examiner's Combination of *Kiron* and *Gould* is Impermissibly Based on the Teachings of Appellants' Application Applied in Hindsight

In rejecting claims 10 and 37 under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 5,966,700 to *Gould* et al. in view of U.S. Patent No. 6,088,685 to *Kiron* et al. ("*Kiron*"), the Examiner interpreted *Gould* as disclosing all the elements of claim 9 except "the steps wherein a financial instrument is tradable or conveyable to an entity that holds no interest in the underlying instruments." (Final OA at 4). The Examiner relied on *Kiron* to supply these missing steps. Appellants respectfully disagree with the Examiner's interpretation of *Gould* and *Kiron*. Further, Appellants submit that the there exists no suggestion or motivation, either in *Gould*, *Kiron*, or in the knowledge generally available to one of ordinary skill in the art, to combine the teachings of *Gould* and *Kiron*.

Claim 10 depends from claim 8 and further recites "wherein the guarantee certificate is tradable." Claim 37 also depends from claim 8 and further recites "wherein the guarantee certificate is conveyable to an entity that holds no interest in the instruments." As recited in claim 8, a guarantee certificate "is a financial instrument representing an obligation of a party to make a payment triggered by certain default-

related events associated with real estate loans," that "entitle[s] a holder of the certificate to receive at least one payment" from cash flows paid to satisfy payment obligations "triggered by certain default-related events associated with real estate loans."

In rejecting claims 10 and 37, the Examiner asserted that "*Kiron* teaches the steps wherein a financial instrument is tradable or conveyable to an entity that holds no interest in the underlying instruments." Even assuming, *arguendo*, that this is an accurate description of *Kiron*'s teachings, claims 8, 10, and 37 do not broadly recite that a guarantee certificate is merely any type of financial instrument that is tradable or conveyable, as the Examiner asserted. As enumerated in the previous paragraph, claim 8, from which claims 10 and 37 depend, recites several specific features of a guarantee certificate, and these features are not disclosed or suggested by *Kiron* or *Gould*. Consequently, the references do not discloses or suggests each and every recited element, and the Examiner has not established a *prima facie* case of obviousness for claims 10 and 37.

Furthermore, the Examiner had not met his burden of demonstrating a reasonable suggestion or motivation, either in *Gould*, *Kiron*, or in the knowledge generally available to one of ordinary skill in the art, to combine the teachings of *Gould* and *Kiron*. (M.P.E.P. § 2142). The Examiner argued that "both *Gould* and *Kiron* are concerned with valuation and administration of contingent claims," and therefore "[t]he combination of teachings taken as a whole suggests that contingent claim holders would have benefited from being able to transfer their claims to other investors when their investment strategies change." (Final OA at 5). This argument does not provide

reasonable evidence of suggestion or motivation to combine, however, because *Kiron* is not concerned at all with contingent claims. A contingent claim is a claim that has not accrued and which is dependent on some future event that may never happen. *Black's Law Dictionary*, 223 (Abridged Sixth ed., West Publishing Co. 1991). *Kiron* teaches a mutual fund securitization process for creating a new, closed-end, "fund of funds" security that invests substantially all its assets in open end mutual fund shares. (Abstract, col. 3, lines 4-16). The new security synthetically replicates the performance of the open end mutual fund shares with a high degree of correlation and consistency because it is invested exclusively in the shares of the open end fund. (*Id.*). This new security can be listed on a National Securities Exchange and traded without restriction, thus providing advantages over the open end mutual fund shares that the security owns, including the abilities to intraday trade the new security and create linked derivative securities can then be listed and traded. (*Id.*, col. 2, lines 28-61; col. 3, lines 17-57).

Kiron's new security does not have a contingent claim on the open end mutual fund shares --it has an actual, non-contingent claim on the shares because it owns them. (Col. 3, lines 4-6; 9-10; col. 6, lines 57-60). An investor's claim to the value of *Kiron*'s new security is not dependent on some future event that may never happen--it is a non-contingent claim based on ownership of the security, which can be bought or sold by the investor anytime the markets are open and which itself owns non-contingent shares of an open end mutual fund(s). (Col. 2, line 64 - col. 3, line 15; col. 3. lines 19-23, 32-39; col. 7, lines 48-52). Thus, the Examiner's assertion that *Kiron* is "concerned with valuation and administration of contingent claims" is unfounded, and consequently

the Examiner's asserted reason for combining *Kiron* and *Gould* because they "suggest that contingent claim holders would have benefited from being able to transfer their claims to other investors when their investment strategies change contingent claim holders would have benefited from being able to transfer their claims to other investors when their investment strategies change" is also unfounded.

Moreover, the Examiner's reason for combining *Kiron* and *Gould* is impermissibly based on the teachings of Appellants' application applied in hindsight, and not based on facts gleaned from the prior art. (*See* M.P.E.P. § 2142). Neither *Kiron* nor *Gould* disclose or suggest that "contingent claim holders would have benefited from being able to transfer their claims to other investors when their investment strategies change." (OA at 5). The Examiner cites nothing in Kiron or Gould to indicate such a suggestion, and indeed there is nothing. Appellants' specification, on the other hand, states that one problem with prior guarantee arrangements is that investors cannot transfer their guarantee cash flows to other investors when their investment strategies change:

> A feature of [the conventional guarantee/insurance] contract is that the payment obligation of the insurer or guarantor always runs to the owner of the insured or guaranteed asset so that the asset and the insurance cannot be decoupled, even if the value of the arrangement to the owner changes. This feature makes the arrangement illiquid and potentially less valuable.

(Appl. at 3).

The specification teaches that guarantee certificates solve this problem because they provide a way to transfer the guarantee cash flows to other investors by trading guarantee certificates:

> Guarantee Certificates consistent with the present invention offer several benefits which are not available through other securities existing in the marketplace at this time. First, Guarantee Certificates provide the first

> tradable guarantee against mortgage default. Tradability allows a holder of mortgage default risk to continually adjust the quality and cost of the insurance in place to offset the default risk. . . . Further, this tradable guarantee can work either by offsetting the full or partial cash flows of another instrument or by offsetting its market value. Currently, mortgage insurers and securities guarantors only provide cash flow hedges for holders of mortgage default risk. To the extent a secondary trading market develops for Guarantee Certificates, these certificates would allow holders of default risk for the first time to put in place a market-value hedge.
>
> (Appl. at 24).

The Examiner's reason for combining *Kiron* and *Gould* is based on the teachings of Appellants' application, not the teachings of *Kiron* or *Gould*.

Conclusion

In summary, for the reasons stated above, the Examiner has failed to demonstrate a *prima facie* case of obviousness under 35 U.S.C. § 103 for claims 8 and 38 because *Gould* does not teach or suggest each and every recited element of those claims and because there is no suggestion or motivation to modify Gould in a manner resulting in the inventions of claims 8 and 38. Similarly, the Examiner has failed to demonstrate a prima facie case of obviousness under 35 U.S.C. § 103 for claim 9 because *Gould* does not teach or suggest each and every recited element of claim 9 and because there is no suggestion or motivation to modify Gould in a manner resulting in the inventions of claim 9. The Examiner has also failed to demonstrate a prima facie case of obviousness under 35 U.S.C. § 103 for claims 10 and 37 because neither *Gould* nor *Kiron*, whether taken alone or in combination, teaches or suggests each and every recited element of claims 10 and 37, and because there is not motivation or suggestion to combine *Gould* and *Kiron*.

For the reasons given above, pending claims 8-10, 37, 38, and 40 are allowable and reversal of the Examiner's rejection is respectfully requested.

To the extent any extension of time under 37 C.F.R. § 1.136 is required to obtain entry of this Appeal Brief, such extension is hereby respectfully requested. If there are any fees due under 37 C.F.R. §§ 1.16 or 1.17 which are not enclosed herewith, including any fees required for an extension of time under 37 C.F.R. § 1.136, please charge such fees to our Deposit Account No. 06-0916.

Respectfully submitted,

FINNEGAN, HENDERSON, FARABOW,
GARRETT & DUNNER, L.L.P.

Dated: August 19, 2005

By: William J. Brogan
William J. Brogan
Reg. No. 43,515

Claims Appendix to Appeal Brief Under Rule 41.37(c)(1)(viii)

The following is a clean copy of all pending claims on appeal.

8. A method for issuing a guarantee certificate, which is a financial instrument representing an obligation of a party to make a payment triggered by certain default-related events associated with real estate loans, the method comprising the steps of:

pooling, into a reference pool, using at least one data processing system, instruments representing payment obligations triggered by certain default-related events associated with real estate loans underlying the instruments;

identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool, using at least one data processing system; and

issuing a guarantee certificate to entitle a holder of the certificate to receive at least one payment from the identified and segregated cash flows.

9. The method of claim 8, wherein the step of identifying and segregating cash flows includes the step of:

creating a trust for holding the pooled instruments; and

initiating payment through the trust of some portion of the identified and segregated cash flows to the holder of the certificate.

10. The method of claim 8, wherein the guarantee certificate is tradable.

37. The method of claim 8, wherein the guarantee certificate is conveyable to an entity that holds no interest in the instruments.

38. A method for issuing a guarantee certificate, which is a financial instrument representing an obligation of a party to make a payment triggered by certain events associated with an asset, the method comprising the steps of:

pooling, into a reference pool, using at least one data processing system, instruments representing payment obligations triggered by default-related events associated with assets underlying the instruments;

identifying and segregating cash flows paid to satisfy triggered payment obligations for the instruments in the reference pool, using at least one data processing system; and

issuing a guarantee certificate to entitle any holder of the certificate to receive at least one payment from the identified and segregated cash flows.

40. The method of claim 8, wherein the certain default-related events includes at least one event from a group comprising: a real estate loan delinquency; a real estate loan default; a real estate loan foreclosure; a real estate liquidation; a real estate loan workout; a classification of real estate as real estate owned (REO); and an acquisition of a real estate deed in lieu of foreclosure.

Evidence Appendix to Appeal Brief Under Rule 41.37(c)(1)(ix)

During prosecution, there was no evidence submitted pursuant to §§ 1.130-1.132 or any other evidence entered by the examiner

Related Proceedings Appendix to Appeal Brief Under Rule 41.37(c)(1)(x)

There are no decisions to cite from a related proceeding.

Dictionary Citations Appendix

For the Board's convenience, Appellants provide copies of the dictionary pages cited to in the Brief.

BLACK'S LAW DICTIONARY®

WITH PRONUNCIATIONS

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e continental congress.

;/. Something that may
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of coming to pass; an
a possibility; a casualty.
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See also Contingent.

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es; Fee; Legacy; Limita-
Use, and Will, see those

Contingent beneficiary. Person who may or will benefit if primary beneficiary dies or otherwise loses rights as beneficiary; *e.g.* person who will receive life insurance if primary beneficiary dies before insured.

Contingent claim. One which has not accrued and which is dependent on some future event that may never happen.

Contingent debt. One which is not presently fixed, but may become so in the future with the occurrence of some uncertain event. A debt in bankruptcy which may be proved and allowed and which arises out of contract. It does not encompass a tort claim on which no action or suit has been brought prior to adjudication. Term may refer to debt incurred by state to which state pledges its credit and guarantees payment if revenues from funded project prove inadequate. *See also* Contingent claim; Contingent liability.

Contingent estate, interest or right. An estate, interest or right which depends for its effect upon an event which may or may not happen. A contingent estate is one which is conditioned upon the existence of persons who answer the description of takers but who cannot be ascertained until the termination of a precedent or particular estate because the right to take is contingent upon the fact of their being alive or having survived until that time or upon the happening of some other uncertain event.

Contingent fee. *See* Fee.

Contingent fund. One set up by a municipality to pay expense items which will necessarily arise during the year but cannot appropriately be classified under any of the specific purposes for which other taxes are levied. *See also* Contingency reserve.

Contingent interest in personal property. A future interest not transmissible to the representatives of the party entitled thereto, in case he dies before it vests in possession. Thus, if a testator leaves the income of a fund to his wife for life, and the capital of the fund to be distributed among such of his children as shall be living at her death, the interest of each child during the widow's life-time is *contingent*, and in case of his death is not transmissible to his representatives.

Contingent liability. One which is not now fixed and absolute, but which will become so in case of the occurrence of some future and uncertain event. A potential liability; *e.g.* pending lawsuit, disputed claim, judgment being appealed, possible tax deficiency. *See also* Contingent claim; Contingent debt.

Contingent remainder. *See* Remainder.

Continuance. The adjournment or postponement of a session, hearing, trial, or other proceeding to a subsequent day or time; usually on the request or motion of one of the parties. Also the entry of a continuance made upon the record of the court, for the purpose of formally evidencing the postponement, or of connecting the parts of the record so as to make one continuous whole. *Compare* Recess.

Continuing. Enduring; not terminated by a single act or fact; subsisting for a definite period or intended to cover or apply to successive similar obligations or occurrences.

As to *continuing* Breach; Consideration; Conspiracy; Covenant; Damages; Guaranty; and Nuisance, see those titles. *See also* Perpetuity.

Continuing contract. A contract calling for periodic performances over a space of time.

Continuing jurisdiction. A doctrine invoked commonly in child custody or support cases by which a court which has once acquired jurisdiction continues to possess it for purposes of amending and modifying its orders therein.

Continuing offense. Type of crime which is committed over a span of time as, for example, a conspiracy. As to period of statute of limitation, the last act of the offense controls for commencement of the period. A "continuing offense," such that only the last act thereof within the period of the statute of limitations need be alleged in the indictment or information, is one which may consist of separate acts or a course of conduct but which arises from that singleness of thought, purpose or action which may be deemed a single impulse. *See also* Crime; Offense.

Continuity of life or existence. The death or other withdrawal of an owner of an entity does not terminate the existence of such entity. This is a characteristic of a corporation, since the death or withdrawal of a shareholder does not affect the corporation's existence.

Continuous. Uninterrupted; unbroken; not intermittent or occasional; so persistently repeated at short intervals as to constitute virtually an unbroken series. Connected, extended, or prolonged without cessation or interruption of sequence. As to *continuous* Crime and Easement, see those titles.

Continuous budgeting. A process in which there is an ongoing twelve-month budget at all points in time during a budget period; a new budget month (twelve months into the future) is added as each current month expires.

Continuous adverse use. Term is interchangeable with the term "uninterrupted adverse use".

Continuous injury. One recurring at repeated intervals, so as to be of repeated occurrence; not necessarily an injury that never ceases.

Continuous treatment doctrine. Under this doctrine, the time in which to bring a medical mal-

practice action is stayed when the course of treatment which includes wrongful acts or omissions has run continuously and is related to the same original condition or complaint.

Continuously. Uninterruptedly; in unbroken sequence; without intermission or cessation; without intervening time; with continuity or continuation.

Contour map. Map which shows the configuration and elevation of surface areas with curved lines.

Contra. Against, confronting, opposite to; on the other hand; on the contrary; the reverse of.

Contra account. *See* Account *(Contra).*

Contraband. In general, any property which is unlawful to produce or possess. Things and objects outlawed and subject to forfeiture and destruction upon seizure. Goods exported from or imported into a country against its laws. Smuggled goods. Articles, the importation or exportation of which, is prohibited by law. See *e.g.* 49 U.S.C.A. § 781.

Trafficking in contraband cigarettes is a federal crime. 18 U.S.C.A. § 2341 et seq.

"Contraband per se" is property the mere possession of which is unlawful, while "derivative contraband" is property innocent by itself but used in perpetration of unlawful act.

See also Bootlegging; Counterfeit; Derivative contraband; Gray market goods; Smuggling.

Contraband of war. Certain classes of merchandise, such as arms and ammunition, which, by the rules of international law, cannot lawfully be furnished or carried by a neutral nation to either of two belligerents. If found in transit in neutral vessels, such goods may be seized and condemned for violation of neutrality.

Contra asset. An account used to reduce asset balances in the financial statements.

Contract. An agreement between two or more persons which creates an obligation to do or not to do a particular thing. As defined in Restatement, Second, Contracts § 3: "A contract is a promise or a set of promises for the breach of which the law gives a remedy, or the performance of which the law in some way recognizes as a duty." A legal relationship consisting of the rights and duties of the contracting parties; a promise or set of promises constituting an agreement between the parties that gives each a legal duty to the other and also the right to seek a remedy for the breach of those duties. Its essentials are competent parties, subject matter, a legal consideration, mutuality of agreement, and mutuality of obligation.

Under U.C.C., term refers to total legal obligation which results from parties' agreement as affected by the Code. Section 1-201(11). As to sales, "contract" and "agreement" are limited to those relating to present or future sales of goods, and "contract for sale" includes both a present sale of goods and a contract to sell goods at a future time. U.C.C. § 2-106(1).

The writing which contains the agreement of parties, with the terms and conditions, and which serves as a proof of the obligation.

Contracts may be classified on several different methods, according to the element in them which is brought into prominence. The usual classifications are as follows:

Blanket contract. Contract covering a number or group of products, goods, or services for fixed period of time.

Certain and hazardous. Certain contracts are those in which the thing to be done is supposed to depend on the will of the party, or when, in the usual course of events, it must happen in the manner stipulated. Hazardous contracts are those in which the performance of that which is one of its objects depends on an uncertain event.

Commutative and independent. Commutative contracts are those in which what is done, given, or promised by one party is considered as an equivalent to or in consideration of what is done, given, or promised by the other. Independent contracts are those in which the mutual acts or promises have no relation to each other, either as equivalents or as considerations.

Conditional contract. A contract whose very existence and performance depends upon the happening of some contingency or condition expressly stated therein. It is not simply an executory contract, since the latter may be an absolute agreement to do or not to do something, but it is a contract whose very existence and performance depend upon a contingency.

Consensual and real. Consensual contracts are such as are founded upon and completed by the mere agreement of the contracting parties, without any external formality or symbolic act to fix the obligation. Real contracts are those in which it is necessary that there should be something more than mere consent, such as a loan of money, deposit or pledge, which, from their nature, require a delivery of the thing *(res).* In the common law a contract respecting real property (such as a lease of land for years) is called a "real" contract.

Constructive contract. See Constructive contract; *also Express and implied; Quasi contract, below.*

Cost-plus contract. See Costs.

Divisible and indivisible. The effect of the breach of a contract depends in a large degree upon whether it is to be regarded as indivisible or divisible; *i.e.* whether it forms a whole, the performance of every part of which is a condition

Historic site. Any building, structure, area or property that is significant in the history, architecture, archeology or culture of a State, its communities or the Nation and has been so designated pursuant to statute. Such structures are commonly statutorily protected and cannot be altered without permission of the appropriate authorities. See, *e.g.*, 16 U.S.C.A. § 461 et seq.

Hit and run accident. Collision generally between motor vehicle and pedestrian or with another vehicle in which the operator of vehicle leaves scene without identifying himself and without giving certain other information to other motorist and police as usually required by statute. Such an act is a crime.

Most states by statute require that motorists involved in accidents to stop at the scene and provide certain information to police and other drivers and passengers involved.

Hitherto. In legal use, this term always restricts the matter in connection with which it is employed to a period of time already passed.

HLA test. A system of tissue typing for determining the probability of paternity and which involves the drawing of blood. *See also* DNA identification.

HMO. *See* Health Maintenance Organization.

Hoarding. Act of holding and acquiring goods in short supply beyond the reasonable needs of the person so holding. *See also* Profiteering.

Hobbs Act. Federal anti-racketeering act making it a crime to interfere with interstate commerce by extortion, robbery, or physical violence. 18 U.S.C.A. § 1951. Racketeering offenses are defined in 18 U.S.C.A. § 1961. *See* Racketeering; RICO laws.

Hobby. An activity not engaged in for profit. The IRC restricts the amount of losses that an individual can deduct with respect to hobby activities so that such transactions cannot be used to offset income from other sources. I.R.C. § 183. *See* Hobby loss.

Hobby loss. A nondeductible loss arising from a personal hobby as contrasted with an activity engaged in for profit. Generally, the law provides a presumption that an activity is engaged in for profit if gross profits are earned during any 2 or more years during a 5 year period. I.R.C. § 183.

Hold, *v.* 1. To possess in virtue of a lawful title; as in the expression, common in grants, "to have and to hold," or in that applied to notes, "the owner and holder."

2. To be the grantee or tenant of another; to take or have an estate from another. Properly, to have an estate on condition of paying rent, or performing service.

3. To adjudge or decide, spoken of a court, particularly to declare the conclusion of law reached by the court as to the legal effect of the facts disclosed. *See* Holding.

4. To maintain or sustain; to be under the necessity or duty of sustaining or proving; as when it is said that a party "holds the affirmative" or negative of an issue in a cause.

5. To bind or obligate; to restrain or constrain; to keep in custody or under an obligation; as in the phrases "hold to bail," "hold for court," "held and firmly bound," etc.

6. To administer; to conduct or preside at; to convoke, open, and direct the operations of; as to hold a court, hold pleas, etc.

7. To prosecute; to direct and bring about officially; to conduct according to law; as to hold an election.

8. To possess; to occupy; to be in possession and administration of; as to hold office.

9. To keep; to retain; to maintain possession of or authority over.

See also Ownership; Possession.

Hold over. To retain possession as tenant of property leased, after the end of the term. To continue in possession of an office and continue to exercise its functions, after the end of the officer's lawful term.

Hold pleas. To hear or try causes.

Hold, *n.* In old English law, tenure. A word constantly occurring in conjunction with others, as *freehold, leasehold, copyhold,* etc., but rarely met with in the separate form.

Holder. The holder of a bill of exchange, promissory note, check, or other commercial paper, is the person who has legally acquired possession of the same, by indorsement or delivery, and who is entitled to receive payment of the instrument. Person who is in possession of a document of title or an instrument or an investment security drawn, issued or endorsed to him or to his order, or to bearer or in blank. U.C.C. § 1-201(20).

Holder for value. A holder who has given a valuable consideration for the document of title, instrument or investment security which he has in his possession. A holder takes an instrument for value: (a) to the extent that the agreed consideration has been performed or that he acquires a security interest in, or a lien on, the instrument otherwise than by legal process; or (b) when he takes the instrument in payment of, or as security for, an antecedent claim against any person whether or not the claim is due; or (c) when he gives a negotiable instrument for it or makes an irrevocable commitment to a third person. U.C.C. § 3-303.

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Irrevocable letter of credit. A confirmed irrevocable letter of credit, irrevocable letter, or a confirmed credit is a contract to pay on compliance with its terms, and needs no formal acknowledgment or acceptance other than is therein stated. *See also* Letter of credit.

Irrevocable offer. An offer which cannot be revoked or recalled by the offeror without liability. U.C.C. 2–205. *See* Firm offer.

Irrevocable trust. *See* Trust.

Irrigation district. A public and quasi-municipal corporation authorized by law in several states, comprising a defined region or area of land which is susceptible of one mode of irrigation from a common source and by the same system of works. These districts are created by proceedings in the nature of an election under the supervision of a court, and are authorized to purchase or condemn the lands and waters necessary for the system of irrigation proposed and to construct necessary canals and other works, and the water is apportioned ratably among the landowners of the district.

I.R.S. Internal Revenue Service.

Is. This word, although normally referring to the present, often has a future meaning, but is not synonymous with "shall have been." It may have, however, a past signification, as in the sense of "has been."

Island. A piece of land surrounded by water. Land in a navigable stream which is surrounded by water only in times of high water is not an island within the rule that the state takes title to newly formed islands in navigable streams.

Isolated sale. Isolated sale which does not entail implied warranty of merchantability is one which occurs only once or at least very infrequently within ordinary course of business.

Issuable. Leading or tending to, or producing, an issue; relating to an issue or issues.

Issuable defense. In common law pleading, a technical expression meaning a plea to the merits, properly setting forth a legal defense, as distinguished from a plea in abatement, or any plea going only to delay the case.

Issuable plea. In common law pleading, a plea to the merits; a traversable plea. A plea such that the adverse party can join issue upon it and go to trial. It is true a plea in abatement is a plea, and if it be properly pleaded, issues may be found on it. In the ordinary meaning of the word "plea", and of the word "issuable," such pleas may be called "issuable pleas," but, when these two words are used together, "issuable plea," or "issuable defense," they have a technical meaning, to-wit, pleas to the merits.

Issue, *v.* To send forth; to emit; to promulgate; as, an officer issues orders, process issues from a court. To put into circulation; as, the treasury issues notes. To send out, to send out officially; to deliver, for use, or authoritatively; to go forth as authoritative or binding. When used with reference to writs, process, and the like the term is ordinarily construed as importing delivery to the proper person, or to the proper officer for service, etc. With respect to securities, refers to act or process of offering stocks or bonds for sale to public or institutional investors.

In financial parlance the term "issue" has two phases of meaning. "Date of issue" when applied to notes, bonds, etc., of a series, usually means the arbitrary date fixed as the beginning of the term for which they run, without reference to the precise time when convenience or the state of the market may permit of their sale or delivery. When the securities are delivered to the purchaser, they will be "issued" to him, which is the other meaning of the term. *See also "Securities", below.*

Issue, *n.* The act of issuing, sending forth, emitting or promulgating; the giving a thing its first inception; as the issue of an order or a writ.

See also Date of issue.

Pleading and Practice

A single, certain, and material point, deduced by the allegations and pleadings of the parties, which is affirmed on the one side and denied on the other. A fact put in controversy by the pleadings; such may either be issues of law or fact. An "issue" is a disputed point or question to which parties to action have narrowed their several allegations and upon which they are desirous of obtaining either decision of court on question of law or of court or jury on question of fact.

Real or *feigned.* A real or actual issue is one formed in a regular manner in a regular suit for the purpose of determining an actual controversy. A feigned issue is one made up by direction of the court, upon a supposed case, for the purpose of obtaining the verdict of a jury upon some question of fact collaterally involved in the cause. Such issues are generally ordered by a court of equity, to ascertain the truth of a disputed fact. They are also used in courts of law, by the consent of the parties, to determine some disputed rights without the formality of pleading; and by this practice much time and expense are saved in the decision of a cause. The name is a misnomer, inasmuch as the *issue* itself is upon a real, material point in question between the parties, and the circumstances only are fictitious.

Ultimate issue. Signifies either such an issue as within itself is sufficient and final for the disposi-

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Tribunal. The seat of a judge; a court of law; the place where he administers justice. The whole body of judges who compose a jurisdiction; a judicial court; the jurisdiction which the judges exercise.

Trier of fact. Term includes (a) the jury and (b) the court when the court is trying an issue of fact other than one relating to the admissibility of evidence. Calif.Evid.Code. Commonly refers to judge in jury waived trial or jury which, in either case, has the exclusive obligation to make findings of fact in contrast to rulings of law which must be made by judge. Also may refer to hearing officer or judge in administrative proceeding.

Trifurcated trial. A trial which is divided into three stages or parts as for example, a trial on issue of liability, trial for general damages, and trial for special damages.

TRO. *See* Temporary restraining order.

Trover /trówvər/. In common-law practice, the action of trover (or trover and conversion) is a species of action on the case, and originally lay for the recovery of damages against a person who had *found* another's goods and wrongfully converted them to his own use. Subsequently the allegation of the loss of the goods by the plaintiff and the finding of them by the defendant was merely fictitious, and the action became the remedy for any wrongful interference with or detention of the goods of another. In form a fiction; in substance, a remedy to recover the value of personal chattels *wrongfully* converted by another to his own use. Common-law form of action to recover value of goods or chattels by reason of an alleged unlawful interference with possessory right of another, by assertion or exercise of possession or dominion over the chattels, which is adverse and hostile to rightful possessor. Such remedy lies only for wrongful appropriation of goods, chattels, or personal property which is specific enough to be identified. *See also* Conversion; Detinue; Replevin.

Truancy. Wilful and unjustified failure to attend school by one who is required to attend. It is a punishable offense within the juvenile system in some states and, in others, it is the basis of a petition for a child in need of services.

True. Conformable to fact; correct; exact; actual; genuine; honest. In one sense, that only is "true" which is conformable to the actual state of things. In that sense, a statement is "untrue" which does not express things exactly as they are. But in another and broader sense the word "true" is often used as a synonym of "honest", "sincere", not "fraudulent."

True bill. The endorsement made by a grand jury upon a bill of indictment, when they find it sustained by the evidence laid before them, and are satisfied of the truth of the accusation. The endorsement made by a grand jury when they find sufficient evidence to warrant a criminal charge. An indictment.

True copy. A true copy does not mean an absolutely exact copy but means that the copy shall be so true that anybody can understand it. *See* Certified copy; Copy; Copying.

True value. For tax assessment purposes, term refers to the market value of the property at fair and bona fide sale at private contract, and is in essence the value property has in exchange for money. In condemnation proceedings, is market value or price which would be agreed upon at voluntary sale between willing seller and willing purchaser, taking into consideration all available uses to which land might be put, as well as all factors, which lead to reimbursement for loss caused by taking. *See also* Market value; Value.

True verdict. The voluntary conclusion of the jury after deliberate consideration, and it is none the less a true verdict because the respective jurors may have been liberal in concessions to each other, if conscientiously and freely made. A verdict is not a "true verdict," when it is the result of any arbitrary rule or order, whether imposed by themselves, or by the court or officer in charge. *See* Verdict.

Trust. A legal entity created by a grantor for the benefit of designated beneficiaries under the laws of the state and the valid trust instrument. The trustee holds a fiduciary responsibility to manage the trust's corpus assets and income for the economic benefit of all of the beneficiaries. A confidence reposed in one person, who is termed trustee, for the benefit of another, who is called the cestui que trust, respecting property which is held by the trustee for the benefit of the cestui que trust. Any arrangement whereby property is transferred with intention that it be administered by trustee for another's benefit. A fiduciary relationship in which one person is the holder of the title to property subject to an equitable obligation to keep or use the property for the benefit of another.

Essential elements of trust are designated beneficiary and trustee, fund sufficiently identified to enable title to pass to trustee, and actual delivery to trustee with intention of passing title.

An association or organization of persons or corporations having the intention and power, or the tendency, to create a monopoly, control production, interfere with the free course of trade or transportation, or to fix and regulate the supply and the price of commodities. In the history of economic development, the "trust" was originally a device by which several corporations engaged in the same general line of business might combine for their mutual advantage, in the direction of